

State Employee Benefits Committee
February 23, 2009, 1:00 p.m.
Tatnall Building, Room 112
Dover, Delaware

The State Employee Benefits Committee met on February 23, 2009 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, OMB, Director,
Statewide Benefits
Faith Rentz, OMB, Statewide Benefits
Ann Skeans, OMB, Statewide Benefits
Mary Thuresson, OMB, Statewide Benefits
Vicki Knotts, Chief of Administration, OMB
Casey Oravez, OMB
Karen Weldin Stewart, Commissioner, DOI
Julian Woodall, Controller, DOI
Andrew Kerber, Department of Justice
Ronniere Robinson, DHSS, Public Health
Jill Ipnar, OMB, PHRST
Terry Mullaney, OMB, PHRST
David Craik, Office of Pensions
Kim Vincent, Office of Pensions
Velda Jones-Potter, State Treasurer
Barbara Bennett, State Treasurer's Office
Nick Adams, State Treasurer's Office
Gary Pfeiffer, Secretary of Finance
Russ Larson, Controller General
Lori Christiansen, Office of the Controller
General
Steve Kubico, Deputy Controller General
Ed Tos, SEBAC Chair/DOL
Christine Long, SEBAC/ DHSS
Meaghan Brennan, SEBAC/OMB
Thomas Chapman, SEBAC/DSEA
Debbie Scanlon, DOE
Judy Anderson, DSEA

Mike Morfe, AON
Debbie Mitchell, City of Dover
Peggy Teal, City of Dover
Kim Hawkins, City of Dover
Rhonda Walker, City of Dover
Mary Pat Urbanik, U of D
Lionel Gilibert, U of D
Joe Morocco, HMS
Andrew Brancatti, BCBSD
Faith Joslyn, BCBSD
Jay Reed, BCBSD
Mike North, Aetna
Julie Caynor, Aetna
Katherine Impellizzeri, Aetna
Greg Sisofo, Delta Dental
Bill Cook, WHYY
Paul Parmelee, WHYY
Chris Barrish, News Journal
Ray Jones, Retiree
Jim Short, DNREC
Frank Ouvas, DNREC
Walter Kane
Lou Cheslia, CAO
Karen Valentine, AFSCME
Shelly Forrier, DSWA
Carolyn Robinson, DSWA
Nelson Hicc, UFCW Local 27
JoAnn Abbott, DDDS
Britt Davis, FOP Lodge #11

Agenda Items Discussed:

Introductions/Sign In

Ms. Visalli asked all meeting attendees to sign the attendance sheet and for anyone interested in addressing the SEBC to sign the Public Comment sheet. Committee members were asked to review the February 12, 2009 meeting minutes while waiting to begin the meeting. The meeting was called to order at 1:00 p.m. Introductions followed.

Approval of Minutes

Ms. Visalli asked for a motion to approve the February 12, 2009 SEBC minutes. Secretary Pfeiffer made the motion to approve the minutes and Mr. Larson seconded the motion. The minutes were approved with unanimous voice vote.

Director's Report

Ms. Lakeman reviewed the component of the Economic Stimulus Bill which will provide premium subsidies for COBRA. The final bill states 65% of the premium must be paid by employers for employees who were or are involuntarily terminated from September 1, 2008 through December 31, 2009. The State is in the process of identifying if there is anyone in this situation, including individuals from the plan's non-state participating groups and will follow through with proper notification measures. If subsidy eligibles are identified and elect coverage, the cost of the subsidy would be repaid to the State via a credit against the payroll tax the State pays to the federal government.

The Economic Stimulus Bill also included a revision to the Pre-Tax Commuter limit as it applies to mass transit and van pools increasing it from \$120 to \$230 per month for the period of March 2009 through December 2010. We currently have 16 participants who have an amount in excess of \$120 per month deducted post tax. This amount will now qualify as a pre-tax deduction. The Statewide Benefits website will be updated to reflect these changes.

At the last meeting there was discussion about recent increases in enrollment of spouses into the plan. Aetna and Blue Cross have been tracking this enrollment. It appears that about ten spouses per week are being changed from secondary coverage to primary coverage under our plan and about ten additional per week that are being added to our plan. Both circumstances involve loss of coverage through another employer. Since the beginning of February the plan has taken on the responsibility of primary health care coverage for approximately 60 spouses.

SEBAC Comment

Mr. Tos stated the SEBAC is working closely with leadership at the Statewide Benefits Office to better understand the particulars of the budget issue and necessary changes in order to reach a consensus around a recommendation that the SEBAC will make to the SEBC in March.

Group Health Fund

January Fund and Equity Report - Vicki Knotts (handout)

Revenues continue to increase due to the number of contracts. Operating expenses were down slightly from December. The ending balance in the Group Health Fund as of January 2009 is \$28.2 million.

2nd Quarter FY09 Financials – Mike Morfe – Aon (handout)

There was a premium moratorium of one month between the first and second quarters of FY 2009. This report reflects only five months of premium and six months worth of claims. Adjusting for the loss of one month of premium, the fund is running approximately \$10 million in excess of expenditures. This equates to approximately two percent of annual premium. It is expected that the fiscal year will end with the fund in the same position. The Fund & Equity reports activity on an ongoing basis and includes current and prior years as opposed to the Financial reporting which reports on current year activity. Overall performance of the Aetna and Blue Cross plans including prescription expenses year to date are the same.

Actives and retirees are rated together. The PPO plan has more than half of the active enrollment, the HMO has 40% and First State Basic has less than 1,000 contracts with very few claims. Graphics were used to depict premiums verses expenditures. There were no questions.

FY2010 Renewal Discussion

Ms. Visalli stated this is a strategic process. A broad overview was given regarding the progression and refining of recommendations necessary to conclude the Group Health budget process and finalize health plan designs and rates. It was encouraged that questions be asked throughout the presentation.

SEBC Group Health Program FY10 Planning – Faith Rentz (handout)

- Objectives for Today's discussion
 - Discuss Updated FY 2010 Expenditure projections
 - Consider proposal to Close Gap
 - Prepare for March SEBC Meetings/Develop Path Forward to Finalize Budget
- Refining the Expenditure Projections
 - Process begins in September
 - Re-Evaluate at the Close of each Quarter
 - Includes Significant Forecasting based on Historical Data

It was noted that time must be allowed for OMB to finalize and provide contracts to be effective July 1.

- Group Health Fund Shortfall in FY 2010 (September 2008, December 2008 and February 2009) - \$30.1M balance needed

Ms. Visalli clarified that the projected shortfall has only slightly changed. There is money in the Health Fund, \$15M, to use toward the gap. There is \$14.7M anticipated from the Governor's Budget, but she stressed there is no guarantee this will remain in the final operating budget.

- Group Health Fund Surplus
 - Balance in Health Fund Surplus
 - Sources of Fund Surplus
 - March 2008 SEBC Approved an 8% increase in the State/Employer Share and Use of \$40M Health Fund Surplus to fund the FY 2009 increase
 - Maximum Available Surplus to fund FY 2010 Increase: (based on January 2009 Fund & Equity & Performance YTD) **\$15.0M**

- Employee Contributions: Moving to the Norm (chart)
 - Proposed **Savings: \$15.7M**
Discussion included employee contributions and cost share. Increases in the employee contributions of 100% for HMO and 35% for PPO were proposed. Predicting employee behavior is difficult and precautions must be taken to avoid massive movement from the PPO to the HMO plan. On average the Group Health Fund pays 3% less for HMO members than PPO members. Premiums for each plan must be set at a level which will cover the anticipated costs. In recent years, there has been significant growth in the PPO plan because employees are willing to pay slightly more for freedom of choice and no gate keeper. If the rates for the PPO and HMO plans are raised at the same percentage, members may no longer feel the slightly richer plan design of the PPO is worth the higher price. The plan will continue to offer the no employee cost First State Basic plan; however, slight changes in the design of this plan will require increased out of pocket costs for these members. Premiums cannot be assessed to this plan without modifications to the Delaware Code. A multi-year approach is recommended to equalize employee contributions and align them with those of other private and public sector employees.
- Proposal to Balance Remaining Shortfall
 - Plan Changes
 - Medical Plan Co-Pay Modifications (Active and Non Medicare Members)
 - Proposes modest increases to PCP, Specialist, Lab, X-ray and Emergency Room visits
 - **Savings \$4.1M**
 - Medical Plan Modifications (Medicare Eligible members)
 - Proposes \$250 out of pocket deductible prior to using supplement plan
 - Impacts 17,850 Medicare Eligible Pensioners
 - No Legislative Changes Required to Implement
 - Reduces OPEB Liability
 - **Savings: \$4.0M**
 - Prescription Plan Changes
 - Eliminate Smart Start 30 Before 90 Day Program
 - Estimated Annual Savings of \$2.1M
 - Additional Step Therapy Programs
 - Estimated Annual Savings of \$1.1M
 - Remove Prevacid Grandfather Provision
 - Estimated Annual Savings of \$90,000
 - Eliminate Coverage for Miralax
 - Estimated Annual Savings of \$50,000
 - Savings from Medco Contract Renegotiation
 - FY2010 Savings of \$3.0M
 - **Total Savings: \$6.3M**
- Proposal to Balance Remaining Shortfall Continued
 - Shortfall: \$30.1M
 - Less Employee Contribution Change: (\$15.7M)
 - Balance: \$14.4M
 - Plan Changes:

- Medical Plan Modifications
 - Active/Non Medicare Eligible (\$4.1M)
 - Medicare Eligible (\$4.0M)
- Prescription Plan Modifications (\$6.3M)
- **Balance Remaining: \$0**

Ms. Visalli gave a recap, stressing the efforts put forth to identify all sources of savings including: prescription coverage, health plans, rates and contract modifications. Careful consideration must be given to adequately address drastic changes in enrollment and premiums. The First State Basic plan will remain as a no cost employee option. Some items, including the General Funds in the Governor's Recommended Budget, are vulnerable.

- Action Items for next SEBC meetings
 - March 13th:
 - Target Date for Vote on Proposal for FY 2010
 - March 30th:
 - Target Date for Decisions on Strategic Plan for Legislative Changes

Ms. Visalli stressed that sensitivity must be taken when comparing the state's benefits with the private sector. A long term strategy is necessary as well as a hard look at how health benefits are changing. Legislative changes may be required after the FY 2010 budget is finalized.

Mr. Larson asked how many employees are enrolled in the Blue Cross HMO plan. Ms. Lakeman stated there are currently just over 16,000 contracts with 4,137 being family contracts. Mr. Larson noted that under this proposal there would be a \$720 a year increase in their annual healthcare costs and wanted to know if a huge jump in enrollment to the First State plan had been calculated. Ms. Rentz affirmed that it had been considered and that while no premiums would be collected from employees for enrollment in this plan, the proposed changes to this plan would further lower the plan costs to offset the reduced revenue.

Ms. Christiansen voiced concern for the lowest paid state employees and that the mandatory 90 day prescription co-pay would be a hardship. Ms. Rentz stated this hardship would only exist for the first 90 day fill and afterwards would actually result in savings for the member. Ms. Visalli explained that the pressure is likely to become greater than it already is financially as it appears the national economy is not improving. Secretary Pfeiffer was concerned as to what would happen if the money already in the Governor's recommended budget is pulled. Ms. Visalli responded that lost funding would have to be found in other ways, such as approving other initiatives and/or legislative changes. As of today the money is still in the recommended budget. The objective is to finalize the rate structure by end of March and if necessary, reconvene later to discuss additional options. Ms. Lakeman reminded them of other options such as prescription co-pay increases which could be implemented after the March 30th deadline.

Ms. Visalli stated that the March 30th meeting objectives will include discussion regarding long term strategy and any financial changes in the Health Fund's 2010 budget. Secretary Jones-Potter asked if the March meetings would include additional information concerning employee contributions based on a sliding scale. Ms. Visalli explained that this option is similar to the percentage of pay option and also requires significant structural changes in the current rate structure and legislative action is

necessary to implement. The concept of health premiums based on compensation can be further investigated and included in those options considered to be long term and which require legislation. Ms. Visalli asked members to consider what was presented today and to make suggestions before the next meeting. A long term look should be taken as to where the entire benefit picture is going. Once through balancing the FY 2010 health fund budget, the committee will need to consider structural modifications to the program. These will require legislation and can continue to be addressed into the spring.

Other Business

Cobra/HIPPA Administration Bid – Group Health Insurance Program – Brenda Lakeman (handout)

Ms. Lakeman asked to award a second contract to Ceridian Benefit Services and notice of termination to ADP. An overview of the basis for this request was given. Since implementation of the new contract with ADP there have been a number of problems that both parties were hoping to work through. The Group Health Program has over 100 employer contacts and ADP cannot accommodate service calls from these Benefit Representatives unless an extra FTE is added to their contract at the cost of \$6,000 a month. In order to avoid this additional cost, the Statewide Benefits Office would have to take the calls from the Benefit Representatives and serve as the only direct contact to ADP. In addition, they are having difficulty with terminations that end mid month. These types of events are currently being handled through the Statewide Benefits Office.

We are asking to award an additional contract to Ceridian effective March 1, 2009 in order to transition new COBRA activity to Ceridian effective April 1, 2009. Transition of all current COBRA beneficiaries to Ceridian would occur within 150 days. As of April 1 we will ask Benefit Representatives to utilize Ceridian for any new COBRA qualifying events and COBRA related activity. Ms. Visalli asked for a motion to add Ceridian Benefit Services effective March 1, 2009 as an additional vendor to handle our COBRA business and to terminate ADP as the Program's COBRA vendor in 150 days. Secretary Jones-Potter asked why the vendor had changed.

Ms. Lakeman said Ceridian had been the previous provider, but ADP presented the lowest bid at the last RFP and were awarded the contract. Additionally, there were customer service issues with Ceridian prior to the RFP award. During the transition from Ceridian to ADP, the Group Health Program's account was assigned a new Relationship Manager who provided outstanding customer service. Secretary Pfeiffer asked if the two vendors would be paid for the same period.

Ms. Lakeman explained that the COBRA vendors are paid based upon qualifying events which will transition to Ceridian on April 1st and by assessing a 2% surcharge to COBRA participant's monthly premiums which will be collected by ADP until such time as these are transitioned to Ceridian. There will be no double payments for COBRA services during the 150 day overlap. Secretary Pfeiffer made the motion and Secretary Jones-Potter seconded the motion. Upon unanimous voice vote the motion was passed.

Public Comment

None.

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Ms. Visalli reminded everyone the next SEBC meeting is scheduled for Friday, March 13, 2009 at 1:00 p.m. in the Tatnall Building and then asked for a motion to adjourn the meeting. Secretary Pfeiffer made the motion to adjourn and Commissioner Stewart seconded the motion. Upon unanimous voice vote the motion carried. The meeting adjourned at 2:05 p.m.

Respectfully submitted,

Mary K. Thuresson
Administrative Specialist
Statewide Benefits Office, OMB